NRA FOCUS

FORECAST '83

BIG STRUGGLES, SMALL GAINS

By Charles Bernstein

A slight improvement is in prospect for 1983 restaurant sales after a relatively flat 1982, but no major recovery is expected.

One encouraging sign was an upswing in sales for the second half after a slow first half. Yet the almost 11% unemployment rate mitigates against any sharp recovery.

Geography and unemployment appear to be crucial factors for fast feeders, coffee shops, budget steakhouses and limited menu dinnerhouses while the white tablecloth segment escapes the brunt of recession problems.

Food-service sales in the hard-hit Midwest were down at least 10% last year. The West Coast showed a sharp slowdown in sales growth, while the Southwest suffered with skyrocketing energy costs and the peso devaluation in key border towns. The Southeast held even, but the Northeast jumped as much as 10%.

These patterns, which seem to reflect unemployment conditions in various regions, probably will continue in 1983.

Still, some industry analysts are moderately optimistic. Foremost among the positive forecasts is that of the National Restaurant Association, which projects a 2% real sales (adjusted for menu price rises) increase for 1983, compared with an estimated 1.2% rise in 1982. Total food-service sales will increase 7.9% to $143.6 billion, the NRA says. Menu price rises would stay at about 6%.

Fast food and hotel restaurants should post respective 4.5% and 3.8% real sales increases for 1983, the NRA says, while the commercial group should show a 2.2% rise, compared with 0.4% for the institutional group.

The outlook for specific chains is decidedly mixed—particularly among the Big Three burger chains which have emerged from their own advertising war set off by Burger King.

McDonald's sales growth has slowed, its new product introductions are showing only limited success, and worldwide expansion has been hit with international and foreign currency problems.

Burger King is retrenching under its new management team. Wendy's is tying a large portion of its future to Sisters Chicken, which is likely to cut into its profitability this year. Meanwhile, Hardee's is still trying to integrate the Burger Chefs into its system.

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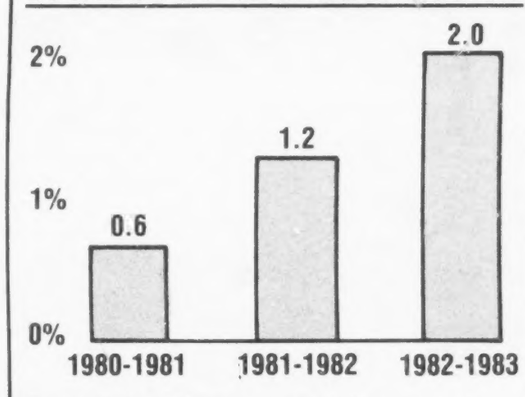
PER CENT CHANGE IN SALES
(IN CONSTANT DOLLARS)
TOTAL FOOD-SERVICE INDUSTRY



Source: *National Restaurant Association*

Foremost among the positive forecasts is that of the National Restaurant Association, which projects a 2% real sales (adjusted for menu price rises) increase for 1983, compared with an estimated 1.2% rise in 1982.

In coffee shops, Denny's has been hit with flat sales growth in recent months and also may be eying a partial reorientation of its Winchell's donut houses. Sambo's is struggling for survival under its new Season's format, and Howard Johnson is trying to reshape its coffee shops under G. Michael Hostage.

Some of the diversified chains face critical decisions. Chart House reportedly is mulling a possible sell off of its Burger King units to concentrate more on Luther's Barbecue chain, Cisco's Mexican dinnerhouses and the Chart House steakhouses.

Shoney's continues to show solid across-the-board growth in its Big Boy coffee shops and Captain D's seafood shops. But now it appears positioned for a big move with the Famous Recipe chicken chain it acquired over a year ago.

Meanwhile, KFC is trying to regain its momentum domestically, and Church's has suffered a severe slump due to the high unemployment rate in many of its marketing areas.

With Arthur Treacher's effectively out of the game and Captain D's strong only in the South, Long John Silver's seems positioned to capitalize on the favorable price of cod.

In budget steakhouses, Ponderosa is showing healthy earnings although being hard-hit by unemployment in its main Midwest areas. Bonanza, virtually all-franchised, seems to have stabilized its position.

Mexican dinnerhouses continue as a "hot" segment with El Chico leading the way in growth, and Garcia's and El Torito also showing momentum.

But the biggest growth is being produced by entertainment-restaurants such as Pizza Time Theatre and Show Biz Pizza. No doubt a shakeout looms in 1983 within this increasingly crowded segment and in the Mexican dinnerhouse segment.

Price/value will be more critical than ever in 1983. The constant couponing of some of the chains appears to be undermining them as customers rebel when prices go back to normal. With these types of pressures, couponing is likely to decline in 1983 as chains utilize it more for new product introductions.

In any case, operators will have to pull in their belts further and try to restrict menu price hikes to 4%—just enough to protect profit margins but not high enough to cut into customer counts.

Menus probably will undergo realignments with chicken, pizza, seafood and salads receiving more emphasis. Burgers and steaks will still be king, but to a lesser degree.

Operators will step up their real estate battles for the limited prime sites available. A bigger push is expected to acquire less costly sites through complete acquisitions or from abandoned restaurants and gas stations in the battle against high land and construction costs.

Finally, labor unions have targeted food-service chains for a tremendous organization push in 1983. The pressure will be intense for chains to offer more to their employees and thereby repel the unions. In either case, operating costs will rise substantially, further eroding profit margins.

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NRN FOCUS

FORECAST '83

Economy squeezing out smaller franchisors

By Donald Frazier

Individual entrepreneurs—traditionally the lifeblood of franchising—are reeling from a tough economy, unpredictable interest rates and the saturation of many markets.

More and more of the action will be dealt to companies which hold multi-unit franchises with major operations. Large franchisees such as Spartan Foods (Hardee's) and Collins Foods (KFC) have advanced into the forefront of their systems.

This is happening for a variety of reasons. Most attribute the trend to the nation's struggling economy, which has sharply curtailed the ability of individuals to invest in a franchise restaurant and has redlined entire markets in older industrial cities.

Others blame the dawning maturity of the food-service industry, and an end to the era when a franchisee could prosper by simply erecting a unit on a major street. Professional management systems may be replacing personal initiative as the key to success in a restructured industry.

This is the viewpoint of one executive whose career spans the last two decades of franchising. "Used to be that we could count on getting all the growth we could manage by selling a franchise to anyone who could spell his name on the check," he said.

"But now, we really have to watch out. Our money's coming from his performance these days. He's already paid his fee."

But even this operator does not slight the impact of the declining economy on franchising. "When you have a choice, who are you going to sign on? The little guy with a dream in his heart and a few dollars in his pocket? Or the professional operators who you know will be around to pay you royalties for a long time to come?"

The difficulties of financing will continue to drive the "little guys" out of the bidding for franchises of recognized chains. The franchising directors of chains are increasingly looking for franchisees who can finance themselves instead of relying on the franchisor for ready locations and loans for equipment.

One budding operation held up its growth for several months to secure the right franchisees. Luther's, the barbecue chain bought last year by Lafayette, La.-based Chart House, could have grown very fast over the last year, according to several industry analysts, if it sold franchises the traditional way.

But it didn't, largely because its president Mike Blackmon was busy canvassing the country for franchisees who had staying power.

"It's a great temptation to get out there and sell, sell, sell when you believe in your product like we do," he said after nailing down commitments to build more than 100 new units over the next five years. "But it's a crowded marketplace out there. The successful operators are just going to have to be well-capitalized. They're going to need their own cash pipelines."

He agreed that this strategy could cost the company's new units the zeal of an on-site owner-manager. While suggesting some franchisors attempt to match qualified operators without capital with capitalized investors, he conceded his own company has made few such arrangements.

Franchisees of the large companies, always influential in the decisions of the franchisor, may flex their muscles more in the next year. They won two important victories last year at Burger King. One was the new, aggressive advertising campaign which emphasized customers' perceived preference for the Burger King product over that of its major competitor, McDonald's. The other, according to many industry observers, was the replacement of former president Lou Neeb by marketing man Jeffrey Campbell, whose hard-hitting personal style seems to have won the support of previously disaffected franchisees.

The franchising directors of chains are increasingly looking for franchisees who can finance themselves instead of relying on the franchisor for ready locations and loans.

These events underscore the gradual realization by major franchisors that success during the next year will need more from franchisees than discipline. They will need enthusiastic cooperation.

The coming year will also see the conversion of more franchise contracts to reflect the new importance of area-wide advertising. Many older contracts lack a clause allowing for an assessment for advertising; adding one can be difficult because it must be done throughout an entire market at once to prevent franchises who do not pay from enjoying the fruits of those who do.

Sometimes a convincing argument by a franchisor can sway franchisees to voluntarily add such a clause one-by-one, as has occured at Dunkin' Donuts. Sometimes a chain can orchestrate a changeover from old-style contracts to updated ones throughout a single market, such as Mr. Steak did in the Minneapolis-St. Paul market.

This may happen more frequently as franchisees recognize the potential benefits of coordinating promotions and advertising when they share the same audience.

The rewriting of contracts is a part of a larger trend which may gain steam this year: The ascent of marketing councils to where all company stores and franchisees in a market area can coordinate promotions and speed the introduction of new menu items.

These councils have existed for many years. But only during the last few years have franchisors began to rely on the councils as partners in running the chain instead of the potential adversaries some have been in the past.

Heavily franchised chains, however, may suffer difficulty in implementing long-range strategic plans over the next year. Franchisees of such companies tend to be small-scale operators who may not have the financial muscle to fund changes in concept or operations. Often they are free to ignore the company's recommendations in these things.

The contrast between the two leaders of the budget steakhouse segment, Ponderosa and Bonanza, illustrate this. Both were hit at about the same time with sharp increases in meat prices and a dramatic shift in consumer taste. Both decided to alter their basic concepts.

Ponderosa, heavily leveraged with company stores, has done this, convincing many of its franchisees to remodel over the last year despite an economic downturn in many of its key areas. But for Bonanza, a more ambitious change has involved a shift in focus to the Sunbelt and disputes with a few of its older franchisees in Texas and Ohio.

The emergence of Chi-Chi's, a heavily franchised Mexican-style dinnerhouse chain, may point toward greater development of dinnerhouse concepts by franchising. The relative complexity of dinnerhouses has kept franchising in that segment to a minimum. But Chi-Chi's franchisees such as Kelly-Johnson and the Consul Corp. have proven that a dinnerhouse can be run from an operations manual if the franchisor exercises tight control over its system, as Chi-Chi's has apparently done.

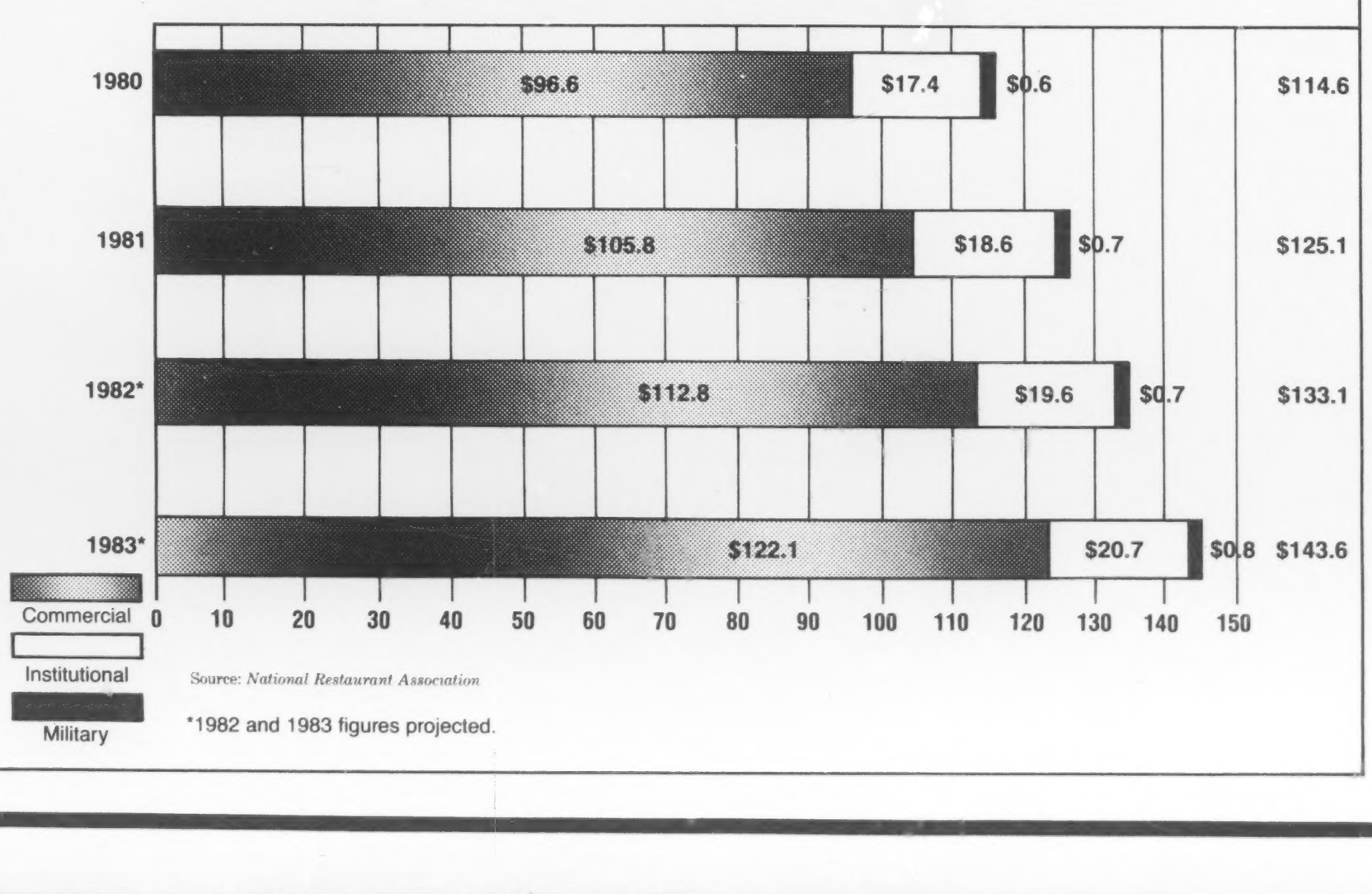
But another dinnerhouse operator, Steak & Ale, has apparently aborted its plans to franchise some of its dinnerhouses. The company had said the franchising of two units near Cincinnati foretold a franchising program for the division. But this program has not yet materialized.

The dark side of franchising—its potential for abuse—may also play a role in the next year's developments.

Hearings by a Congressional subcommittee last year uncovered several cases of marginal franchisees who apparently misled and exploited small-scale entrepreneurs who invested in their operations. The once-proud Arthur Treacher's system, wracked by a crippling lawsuit and a change in ownership, nearly completed its dissolution last year. The new owners of A & W have apparently begun an ambitious program to pare down the size of the almost-entirely franchised system.

(Continued on page 42)

FOOD-SERVICE INDUSTRY SALES (IN BILLIONS), 1980-83



Source: *National Restaurant Association*

*1982 and 1983 figures projected.

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CONVENIENCE STORES
Muscling in on fast feeders—Pp. 25-31

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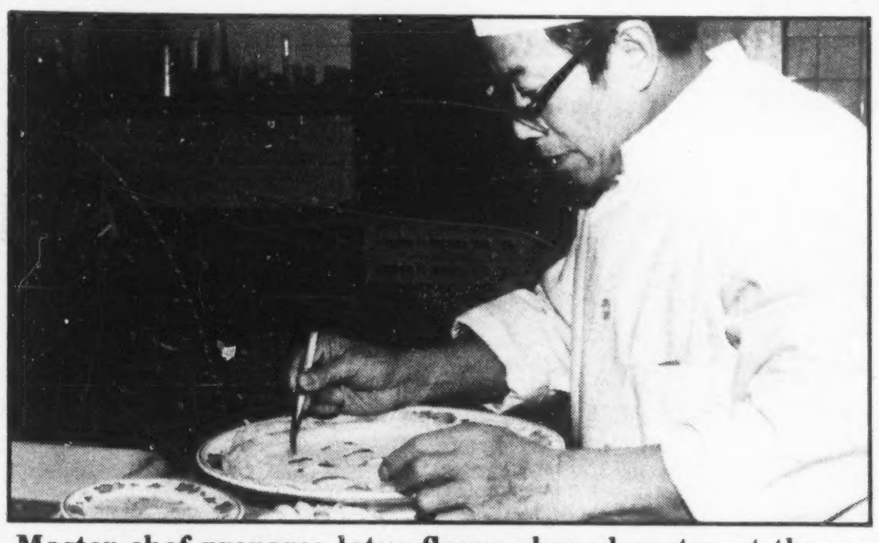

Master chef prepares lotus flower-shaped pastry at the recently opened Sichuan Garden restaurant in Washington.

China invades U.S. dining market

By Laura Woda and Ken Rankin

WASHINGTON—The People's Republic of China is planning to launch a flagrantly capitalistic chain of authentic Szechwan restaurants in major United States cities over the next three years.

The flagship of the Chinese government's new food-service initiative—a 299-seat dinnerhouse staffed by "imported" master chefs from Szechwan Province—opened in Washington late last year within the shadow of the White House. (See story, page 2)

Like the other Peking-subsidized restaurants now on the

(Continued on page 75)

HoJo unveils new strategy to overcome sluggish sales

By Charles Forman

BRAINTREE, Mass.—One year after the departure of family chieftain Howard B. Johnson, the wraps are slowly coming off a new strategic business plan at the Howard Johnson Co.

Key to the sluggish giant's assault on its problems is a carefully planned, major reorganization of the way the company manages and markets its restaurants and lodges.

This is under way after 12 months of planning led by G. Michael Hostage, who became board chairman, president and ceo Jan. 1, 1982. Howard Johnson's management declined to be interviewed on the plans.

Naked of frills, the strategy is undramatic, long term and, to some extent, obvious.

Hostage recently declared, "We're basically catching up with the rest of the industry."

HoJo's is also going to have to play catch-up with itself.

Earnings were essentially flat at about $33-$34 million from 1978 until last year. Now sources estimate about a 13% drop in earnings for fiscal 1982 ended Oct. 31.

In addition to earnings troubles, recent reports documenting Hostage's efforts have stressed what may be a growing public aversion to the Howard Johnson name.

Hostage's strategic approach to such complex problems embraces a few conceptually straightforward and simple imperatives.

First, HoJo's must enhance productivity of 800 existing Howard Johnson restaurant facilities and 500 motor lodges. At the same time, obstacles—like ensuring adequate unit management—that have barred more rapid expansion of the potentially high volume, high profit 200-unit Ground Round concept must be cleared away.

Another strategic move that has been highly publicized in recent weeks, a venture to build a 40-unit upscale hotel chain, may be something of a red herring.

A plan for a new hotel chain is being mulled by HoJo's British

G. Michael Hostage

parent, the Imperial Group PLC, a tobacco and food conglomerate that bought the American firm in 1980.

Officials at the highest level here insisted, nonetheless, that describing such a move a *fait accompli* is premature.

More likely is careful testing of the concept with much more limited financing than the $700 million one source indicated last

(Continued on page 76)

Blackboard specials chalk up added revenue

By Joe Edwards

With the recession continuing to pressure food service, operators are rediscovering chalkboards listing daily specials as an effective marketing tool to generate higher sales.

Chalkboards and other handprinted signs strategically placed in a dining room can build check averages by inducing customers to order more expensive menu items or appetizers, desserts and specialty drinks they otherwise may have passed up.

Operators who use chalkboards also report that placing the signs outside restaurants on busy city streets or in shopping malls can lure customers inside.

What's more, these operators say, chalkboards enable them to take advantage of daily bargains in fresh food, sell slow-moving stock, enhance their restaurant's image, and save on menu printing costs.

"Yes, they're a good marketing tool," comments Ben Benson, part owner of several New York City restaurants including Smith & Wollensky, Ben Benson's Steakhouse and Thursday's. Benson uses chalkboards inside all his restaurants.

"It's very useful for us, primarily because we can decorate them a little, give them a personal touch," says Michael Fisher, a manager at Chestnut Street Grill in Chicago. Chalkboards, he adds, "are fresh looking. They give customers the impression that what you're serving is definitely special."

Benson especially likes chalkboards because they help him sell slow-moving menu items. "We list items we think we should push that day," he says. "We will put one or two specials or the catch of the day, but generally we put something that is getting a little backed up."

Chalkboards "do help move things," he adds. As one example, Benson cites orders for potato skins which jump from 10 to 30 a day when he lists them as a special on the chalkboard at Thursday's, his casual restaurant in midtown Manhattan.

At Smith & Wollensky, a handsome upscale steakhouse, a large chalkboard in the dining room serves several purposes. Fresh seafood and vegetables that are not available often enough to be listed on the printed menu get billing on the chalkboard. Also listed is the day's soup and the size of fresh lobsters.

At the seven Atlanta restaurants operated by the Peasant Company, chalkboards are used exclusively in a tradition dating back 10 years to when the first Pleasant Peasant restaurant opened.

"That's all we have is blackboards," says Leigh Bonnell.

(Continued on page 76)

ShowBiz sales drop 10%

Brock anticipating 4th qtr. loss

By Susan Spedalle

DALLAS—Brock Hotel Corp., which derives half of its revenues from an 80% interest in ShowBiz Pizza Place, says it is anticipating an operating loss for the fourth quarter of this year. The company recently canceled an approximately $8 million stock offering and is laying off 20% of its employees at its new headquarters here.

Other moves affecting ShowBiz Pizza Places include rolling menu prices back 5%, taking the loss on the profit margin, and changing the admission policy to allow unaccompanied teenagers into the restaurants.

A 1.1 million share stock offer was withdrawn, said Bob Brock, because the current stock price, coupled with declining interest rates, did not make the offer attractive at this time. However, the $70 million necessary to build 65 company-owned ShowBiz units and three all-suite Park Suite hotels next year will be financed through other credit arrangements, such as operating leases, limited partnerships, and off-the-balance-sheet joint ventures, all of which the company has used in the past.

The anticipated loss for the fourth quarter comes on the heels of a bad third quarter for Brock and other pizza game companies. While Brock Hotel Corp. kept the stock market happy in the third quarter by posting a dividend from the sale of two hotels, sales for one-year-old ShowBiz stores dropped 10.7% for the three-month period from $382,000 to $341,000, while profits for those stores dropped 45% from $107,000 to $58,000. The decrease in profits, say company officials, is due to the recession and a decrease in games revenue from 28% to 24% of sales.

Robert Brock

Advertising and animation development fund contributions—which totaled 6% of sales—and the 1.5% of sales due to Pizza Time Theatre as a result of a lawsuit between the two companies settled earlier in the year, also contributed to the profits decline.

(Continued on page 76)

LATE NEWSBREAKS

Burger King may operate food-service facilities in some stores of the massive Woolworth chain if current negotiations are finalized. Officials are mum on any plans, but it could mean a unique breakthrough in a fast-food chain's operating units within stores.

Boston has banned video games in neighborhood businesses "in response to the demands of parents and local community residents for a stop to the video games invasion." Special recreation centers were exempted from the ruling. A number of cities and towns are moving to bar video games, which have become a feature of numerous restaurants.

Richard Rivera, former president of Dallas-based El Chico restaurants, has been named president of W. R. Grace's Atlanta-based Del Taco chain. He succeeds Richard Hynan.